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STATE FOR AF/E AND AF/EPS J. POTASH AND T. DAVIDSON STATE ALSO FOR  
EBB/TPP M. LURIE AD DRL K. GILBRIDE  
STATE PASS TO USTR FOR C. HAMILTON AND W. JACKSON  
ALSO PASS TO USAID AFR/EA  
TREASURY FOR VIRGINIA BRANDON

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SUBJECT: UGANDA: 2008 AGOA ELIGIBILITY REVIEW

REF: A) STATE 85086

11. Country: Uganda

12. Current AGOA Status: Eligible

13. Country Background Summary: After two decades of broad-based economic growth and political stability, Uganda is now confronting a range of economic and governance challenges as it tries to sustain and deepen economic growth and development. The Government of Uganda (GOU) has supported the passage and implementation of laws and regulations to create greater government accountability, open markets, expand infrastructure, and build a more attractive environment for foreign investment. Uganda's judiciary remains largely independent, though corruption continues to be a major problem. Political parties function, but government restricts both the press and grassroots political activity. Four labor reform bills passed by Parliament in 2006 significantly improved labor rights but have not yet been implemented. Uganda has not engaged in activities that undermine U.S. foreign policy interests or national security and Uganda continues to actively support U.S. counter-terrorism goals in East Africa.

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COMMENTS ON ELIGIBILITY REQUIREMENTS  
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1I. MARKET-BASED ECONOMY  
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1A. Major strengths identified:

-- The Government of Uganda (GOU) is making commendable economic progress, with sound macroeconomic policies emphasizing low inflation, steady growth, and low debt levels.

-- The country maintains a liberal trade and foreign exchange regime, and largely adheres to IMF/World Bank programs to fight poverty, maintain macroeconomic stability and restructure the economy.

-- External debt levels, at roughly 20% of GDP, are low by international standards. Inflation has remained in the single digits for most of the last decade, though a spike to 15.9% in August 2008, three times the Government's estimate, is cause for concern.

-- The GOU continues to make progress increasing the role of the private sector in the economy. It has privatized most of its public enterprises over the past few years, including entities in the

banking, telecommunications, and energy industries. About 30 firms remain in GOU hands.

-- There are no foreign exchange controls affecting legitimate trade and investment, and Ugandan law allows 100% foreign ownership of domestic enterprises. The capital markets sector is steadily improving with more listed companies expected in 2009

-- The Heritage Foundation's Index of Economic Freedom listed Uganda's economy as the fifth freest economy in sub-Saharan Africa in 2007, based on factors such as the ease of doing business, openness to trade, property rights, and fiscal and monetary policy.

-- Important sectors are seeing strong growth as a result of private investment. The fastest growing sectors of the economy are services (especially financial services), construction and manufacturing, though the transport (road, rail and air) and telecommunications sectors are also experiencing strong growth.

-- Uganda's banking sector is seeing strong development as a result of the approval of new licenses by the Bank of Uganda. The number of licensed banks in Uganda rose to 20 from 15 in 2008. Several other banks are expected to apply for approval and begin operations in 2008 or early 2009. With an increase in the number of banks is a rise in competition and the number of products offered to customers. Five new bank branches opened recently in Gulu, in northern Uganda, demonstrating that area's development after years of conflict.

-- Recently, GOU initiatives have focused on infrastructure investment, the promotion of foreign investment, value-added manufacturing and increased international trade. This strategy has

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reaped rewards, with growth at 9.1% in the 2007/2008 Ugandan fiscal year and estimated at 8.1% for 2008/2009. (Note: The Ugandan Government has recently revised its methodology for measuring economic growth, resulting in growth figures roughly two percentage points higher than those used previously. End Note.)

-- President Museveni continues to speak out in favor of open trade with his mantra that "trade, not aid" will fuel Uganda's economic development and reduce poverty. The country has recently seen success, with exports rising 40% to \$1.34 billion in 2007 on the back of high commodity prices and higher exports to regional markets.

-- Shifting away from its traditional European markets, Uganda saw regional exports explode in 2007. Exports to the Democratic Republic of Congo rose by 127% to \$100 million last year, and to Sudan by 72% to \$157 million. Uganda also saw 78% export growth to the countries that make up the Common Market for Eastern and Southern Africa (COMESA).

-- The 2008/2009 budget aims to improve the country's infrastructure, increasing funding for roads to \$687 million from \$390 million and providing some \$70 million to build a hydropower dam at Karuma Falls on the Nile.

-- Uganda is aggressively trying to diversify its energy sector to reduce the amount of current load shedding, planning 1,045 MW of new capacity in the next five years. The largest generation project is a 250 MW hydropower dam at Bujagali Falls on the Nile river. It is expected to be completed in mid-2011.

-- The discovery of modest oil reserves near Lake Albert in western Uganda should eventually help alleviate Uganda's power shortage. Oil production should begin in late 2009, with initial production of 5,000 barrels per day. GOU sources say their plan is to refine this oil into heavy fuel oil and build an 80 MW power generation plant.

-- The East African Customs Union agreement between Uganda, Kenya, and Tanzania continues to harmonize duties, standards and practices, which should decrease costs and time associated with exports within the region.

-- Tax revenue collections by the Ugandan Revenue Authority (URA) continue to increase.

-- Uganda continues to improve its physical and regulatory structure; including draft legislation to upgrade Ugandan intellectual property protections.

#### B. Major issues/problems identified:

-- Limited access to affordable credit remains a challenge for business. Credit for commercial loans remains difficult, with the Ugandan schilling rate for prime corporate borrowers ranging from 17 to 19%.

-- Uganda's drought has largely ended, benefiting hydropower generation plants. Analysts say new power demand is increasing at 8% per annum, however, outstripping the power created by new generation projects. Electricity shortages and transportation bottlenecks hinder economic growth and trade in every sector.

-- Corruption and lack of transparency have caused difficulties for some U.S. investors, and senior GOU officials do not always respond adequately to Embassy advocacy for a level playing field for all market participants. Major public tenders in the past year have resulted in multiple investigations for fraud, mismanagement, and abuse.

-- Critics assert that the benefits of privatization went overwhelmingly to insiders, and not all privatizations have proved successful. The privatization of the former Kenya-Uganda Railway to a South African firm for \$288 million, as reported in the 2007 AGOA report, has resulted in no visible investment to date and railway cargo to and from Kenya remains at a trickle.

-- A key GOU challenge will be managing and investing oil resources in a fair and transparent way. Uganda is not expected at this time to export oil, though no final decision has been made.

-- The recent global financial crisis could make raising foreign capital more challenging.

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-- Uganda needs to combat counterfeit goods much more aggressively in order to protect local manufacturers and trading partners. A long-standing case involving counterfeit Kiwi shoe polish, owned by Sara Lee, remains languishing in court.

-- While the GOU steadfastly supports AGOA and promotes its benefits, it has experienced significant difficulties realizing its full potential. Uganda receives similar benefits for its exports from nearly all developed markets, including the European Union, its largest trade partner. Uganda's 2007 exports under AGOA and the General System of Preferences were valued at \$1.7 million and included apparel, tungsten concentrates, cut flowers, wooden ornaments, and jewelry.

-- Apparel exports, a previous focus of Uganda's AGOA strategy, have faced challenges under AGOA. Tri-Star Apparel and Pheonix Logistics had exported to the United States, but both operations have since gone bankrupt, with significant losses to the GOU, which had invested in the enterprises. This led critics to blast President Museveni for an ad hoc approach to AGOA that favored a few firms and individuals instead of taking a strategic approach that invested in critical export sectors.

## ----- II. POLITICAL REFORMS, RULE OF LAW, ANTI-CORRUPTION -----

#### A. Major Strengths Identified:

-- Uganda's judiciary is independent, especially at the highest levels, but understaffed and under-funded. The judiciary has on several recent occasions ruled against the Government on major

issues, though the Executive has not complied with some court decisions.

-- The GOU has taken steps to increase the number of judicial officers, and hired 12 new justices in March 2008. The GOU continues its efforts to improve judicial efficiency and promote alternative methods of dispute resolution. Special courts to resolve commercial disputes are now functioning. Due process rights are generally respected in civil and criminal cases.

-- "Multi-partyism" was reintroduced in 2006 after President Museveni had banned parties for nearly two decades. The ruling National Resistance Movement (NRM) party of President Museveni dominates the parliament, but opposition parties and independent representatives are in charge of key oversight committees.

-- The new multi-party parliament has in place oversight mechanisms that have helped combat corruption. All oversight committees are headed by members of the small but vocal, opposition parties. For instance, Parliament's Local Government Accounts Committee has pursued local officials over financial issues raised in government audits. Corruption cases, when brought to court, are generally decided on a transparent basis.

-- Uganda signed a \$10 million Millennium Challenge Corporation Threshold Country Plan (MCC TCP) in 2007 and began implementation in 2008. The plan is aimed at tackling corruption in government procurement. The GOU has committed \$2.2 million toward this project, \$1 million of which was allocated in the 2008/2009 budget.

#### B. Major issues/problems identified:

-- Despite transparency at the higher levels of the judiciary, there are still significant inefficiencies including occasional incompetence and/or corruption at lower levels of the court system, in particular at the magistrate level.

-- There were several politically charged court cases in 2008 where the GOU failed to charge individuals in court within the Constitutionally-mandated 48-hour period.

-- Significant judicial backlogs continue to cause long delays in the justice system, particularly in northern Uganda, which is transitioning back to a civilian law and order regime after decades of insurgency.

-- The press has been under fire, in part because it has become an outlet for internal dissent within the ruling party. Government actions against the media included harassment of journalists, monitoring of independent newspapers and radio programs, charging

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journalists with various media code violations, the temporary closure of an independent television station for political reasons, and the curbing of the primary opposition newspaper's content.

-- Government security forces arrested three officials from the Buganda Kingdom in July 2008. After they were released, the GOU negotiated with Buganda Kingdom officials to tone down the CBS radio station's criticism of the Government's proposed land bill amendments. Critics saw the Government's pressure upon CBS as an infringement upon the freedoms of speech and expression, guaranteed in Uganda's Constitution.

-- Corruption is a serious problem in Uganda and the Government's political will to fight corruption remains questionable. Uganda fell 15 places, to 126 from 111 Transparency International's 2008 country corruption rankings.

-- The Inspector General of Government (IGG) has an independent mandate and broad powers of investigation and prosecution. However, the media and observers have criticized the IGG for being under the President's influence and for refusing to cooperate with other anti-corruption agencies. Parliament, to whom she is constitutionally mandated to report, has called into question the effectiveness of the institution as currently constituted.

-- The GOU has proposed constitutional changes to limit the IGG's power, but these have not yet been considered or adopted by parliament.

-- Under ethics legislation, a wide range of public officials, including the President, are required to declare their wealth and there is a provision that allows for the dismissal of politicians for failure to declare their full wealth. In practice, this power has been exercised only selectively, however.

-- In September 2005, the Global Fund for HIV/AIDS (GF) suspended its five grants worth over \$201 million to Uganda after evidence emerged of serious mismanagement of \$45 million that had been expended. A Judiciary Commission of Inquiry released a 400-page report in 2006 placing primary blame on the former Health Minister, the former State Minister for Health, and the former Minister of State for Primary Health Care for fraud and mismanagement of the funds. In April 2007, however, the Cabinet issued a white paper exonerating these former ministers, which in the minds of many critics called into question the government's commitment to combating corruption. In a second major scandal, high-level government insiders allegedly diverted funds for the Global Alliance for Vaccines and Immunizations in order to assist their political campaigns. The case is currently in court.

-- In the second half of 2008, Parliament began investigations into another high-level corruption case involving the National Social Security Fund (NSSF), the state-run pension system, over the latter's purchase of allegedly over-priced land from a company owned by the Minister of Security. The NSSF Chairman testified that the Ministers of Security and Finance pressured him into buying land, much of which was determined to be wetland, for a low-cost housing project. The Committee's report will likely include a recommendation that the Finance and Security Ministers resign on the grounds of influence peddling and conflict of interest and pay back the funds from the dubious land deal.

-- Several senior Government and military officials accused of corruption have not been prosecuted. The GOU has also failed to follow up on plausible UN reports indicating high-level involvement in the illegal exploitation of natural resources in the Democratic Republic of Congo, illegal defense procurement arrangements, and other corrupt practices.

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III. Economic Policies to Reduce Poverty  
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A. Major Strengths Identified:

-- The GOU continues to allocate resources to fight poverty. Uganda's 2008/2009 budget addresses the issue of poverty and increases spending 28% overall.

-- Among other initiatives, the budget nearly doubles spending on roads and other infrastructure, which will assist the poor and overall economic development. It also represents a decline in aid dependence, with 32% of the budget coming as direct support from

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foreign donors, down from just under 50% only two years ago. (Note: These figures do not include U.S. assistance and other donor support that is provided off-budget. The U.S. provides only off-budget support. End Note.)

-- Recent statistics show that the poverty rate has declined from 38% in 2004 to 31% in 2006, the most recent figure available.

-- The Poverty Eradication Action Plan (PEAP), launched in 1997 and revised every four years, continues to focus the GOU's poverty reduction activities, specifically by improving health and sanitation, access to clean water, universal primary education, the transport system, and growth in the agricultural sector. The goal is to reduce poverty to 10% by 2017. A fourth PEAP will be launched in 2009 to focus the GOU's poverty reduction activities.

-- Another program, the Peace, Recovery, and Development Plan (PRDP), focuses on development and poverty alleviation in northern Uganda. The new budget increased its allocation for PRDP by 20% to \$195 million.

-- Economic conditions and trade in northern Uganda have improved significantly in the past year as a result of increased security. There have been no attacks in northern Uganda since August 2006. The majority of the 1.8 million internally-displaced persons in northern Uganda have returned to or near their homes.

-- Trade between northern Uganda and southern Sudan is booming as a result of improved security in southern Sudan and northern Uganda.

-- USAID is currently implementing a \$35 million poverty reduction program aimed at improving rural livelihoods, particularly in the north.

-- On the health side, Uganda has developed a model program to combat HIV/AIDS, and prevalence rates have decreased from 15% in the 1990s to 6.4% in 2006. The United States is a critical partner in Uganda's HIV/AIDS efforts, contributing \$284 million in FY 2008 to HIV/AIDS initiatives through the President's Emergency Plan for AIDS Relief (PEPFAR).

#### B. Major issues/problems identified:

-- Population growth of 3.5% annually creates an urgent need for sustained and broad-based economic growth. The GOU will be particularly challenged to create jobs, as Uganda's working age population will double in 15 years.

-- Corruption and mismanagement of government resources discourages investment and decreases the effectiveness of anti-poverty programming.

-- Uganda's weak infrastructure, health and education systems have a larger-than-average impact upon the poor.

#### ----- IV. Worker Rights, Child Labor/Human Rights -----

#### Major Strengths Identified:

-- Four labor reform bills passed by the Parliament in March 2006 significantly improved labor rights in Uganda. The laws have not yet been implemented, however.

-- The new laws reduce the minimum number of workers required to establish a union from 1,000 to 20, remove the requirement that at least 51% of employees join a union before management is required to engage in collective bargaining, and set new timeframes for union recognition, collective bargaining and strikes.

-- The Industrial Court is now funded directly by the national budget (not through the Labor Ministry), and the President of the Industrial Court has been elevated to the status of a judge. The Industrial Court has the power to re-instate employees who are improperly dismissed, and to impose fines against employers.

-- The National Organization of Trade Unions (NOTU) is the largest labor federation, and includes about 15 unions. Its rival, the Central Organization of Free Trade Unions (COFTU), includes five unions. An estimated 855,000 of 2 million persons working in the formal sector belong to unions.

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-- Uganda cooperates with the International Labor Organization (ILO) and has ratified all eight ILO conventions.

-- In May 2007, the GOU launched its national child labor policy, which was passed in Parliament in November 2006. Comprehensive anti-trafficking in persons legislation was introduced into



Parliament on July 3, 2007, and is now in committee. The legislation will likely pass in November 2008. There are active programs underway, with support from the ILO and the U.S. Department of Labor, to combat child labor, but the practice nevertheless remains a concern in Uganda, particularly in the informal sector. The United States has supported efforts to move the legislation forward.

-- Approximately 100 district-based labor officers have responsibility for inspecting workplaces and processing worker and management complaints. Though not fully effective, this mechanism contributes to the enforcement of labor standards.

1B. Major Issues/Problems Identified:

-- The Ministry of Gender, Labor and Social Development, which oversees national labor policy and helps enforce labor laws, is under-staffed and under-funded.

-- Child labor remains common, especially in the informal sector and agricultural industries.

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1V. International Terrorism/U.S. National Security  
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1A. Major Strengths Identified:

-- Uganda has not engaged in activities that undermine U.S. foreign policy interests or national security and in fact Uganda continues to actively support the United States on counter-terrorism matters.

-- The GOU's cooperative attitude was demonstrated during the Commonwealth Heads of Government Meeting (CHOGM), held in Uganda in November 2007, when the GOU worked closely with over 50 foreign governments on security matters to host this complex event.

-- In preparation for CHOGM, the GOU initiated additional security steps at its ports of entry (specifically the airport). These security steps have resulted in the detention and/or arrests of transiting individuals suspected of having links to international terrorist organizations.

-- Uganda's provision of around 1,700 military troops in support of the African Union Mission to Somalia (AMISOM) since early 2007 strongly demonstrates its willingness to contribute to regional stability.

1B. Major Issues/Problems Identified:

-- Uganda's anti-terrorism security capabilities are generally low.

-- Uganda's location in East Africa and porous borders make Uganda a known terrorist transit point.

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